Rating Report

University of Toronto

Paul LeBane
+1 416 597 7478
plebane@dbrs.com

Scott Cherry
+1 416 597 7343
scherry@dbrs.com

DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debentures	AA	Confirmed	Stable

Rating Update

DBRS Limited (DBRS) confirmed the Issuer Rating and Senior Unsecured Debentures rating of the University of Toronto (the University or U of T) at AA. Both trends are Stable. The ratings continue to reflect the University's exceptional academic profile, strong enrolment outlook and effective financial management practices, which have translated into positive operating results and a strong balance sheet. The University's credit profile continues to experience some weakness in the form of large pension and post-retirement benefit liabilities and a constrained revenue model that is the result of provincial policy decisions pertaining to operating grants and tuition fees.

The University reported exceptional operating results for the 2016–17 fiscal year, with a $417 million surplus and a $1.1 billion increase in net assets. The strong result significantly outpaced the University's mid-year projection, which largely reflects the strong market returns on the University's investment portfolios that occurred in the second half of the fiscal year and efforts made by faculties and divisions to set aside operating contingency reserves and capital reserves.

The University has tabled a balanced budget for the 2017–18 fiscal year and a balanced long-term budget outlook. While Ontario's university sector is facing enrolment and funding-related challenges, U of T remains one of Canada's leading universities and has not been meaningfully challenged in achieving its enrolment and financial objectives. The University continues to see strong student demand and to attract considerable research funding and donations/contributions. The outlook for the University remains strong, and U of T has ample budget and balance sheet flexibility to meet unforeseen or adverse changes in the operating environment.

The University continues to make significant investments in capital renewal and expansion across its three campuses; however, the strength of U of T's balance sheet and its effective approach to capital budgeting are expected to limit the need for new borrowings. The University does not plan to issue any material external debt over the next three years. As such, DBRS projects the University's debt burden to fall below $8,900 per full time equivalent (FTE) by 2019–20 from its current level of $9,145 per FTE.

DBRS expects the ratings to remain stable over the medium term given the University's exceptionally strong financial ratios and stable academic profile. A positive rating action would require an improvement in the funding environment or an upgrade of the Province of Ontario (the Province), though DBRS notes the methodology does not limit the number of notches a university rating may exceed that of its government funder. A negative rating action could result from a significant and sustained deterioration in operating results leading to a significant weakening of the balance sheet.

Financial Information

	For the year ended April 30				
	2016-2017	**2015-2016**	**2014-2015**	**2013-2014**	**2012-2013**
Operating balance (DBRS-adjusted, $ millions)	417	211	288	204	138
Debt per FTE ($)	9,145	9,317	9,677	9,988	10,326
Expendable resources to debt	207%	171%	155%	130%	111%
Interest coverage (times)	8.8	8.9	8.7	5.6	6.1
Surplus-to-revenue (five-year average)	8.7%	6.6%	5.3%	3.6%	0.4%

Issuer Description

Founded in 1827, the University of Toronto is Canada's largest university, with enrolment of nearly 89,000 students (78,000 FTEs). Located on three campuses – St. George (downtown Toronto), Mississauga and Scarborough – the University offers a range of undergraduate, graduate and professional programs and is home to one of the most extensive library systems in North America. The University's campuses are located in the Greater Toronto Area, Canada's largest urban centre with a population of about 6.0 million.

Rating Considerations

Strengths

1. A leading Canadian university
The University is one of Canada's leading universities and benefits from the strong reputation of its comprehensive academic and research programs as well as its excellent library system. Its established academic profile and strong demand from both domestic and international students continues to drive enrolment growth across U of T's three campuses.

2. Strong balance sheet
Over the last five years, the University's balance sheet has shown consistent improvement, which provides the University with considerable financial flexibility. Unfunded pension liabilities have fallen sharply, while financial resources in the form of endowed assets (+57%) and expendable resources (+110%) have risen strongly. At April 30, 2017, expendable resources were in excess of two times the University's outstanding long-term debt. The University also maintains ample liquidity in the form of cash and short-term investments.

3. Effective management practices
The University has effective financial management practices. The budget process is highly decentralized, emphasizing local responsibility and control, which results in improved medium-term planning. This has led many divisions to achieve strong results and build reserves, which has translated into substantial surpluses at the institutional level in recent years. U of T only authorizes the budgeting of a deficit in extraordinary circumstances and requires an accumulated deficit to be eliminated by the end of the five-year planning period. The University also has a debt policy and capital-planning processes that seek to meet the University's growing needs while preserving its long-term financial flexibility.

4. Downtown Toronto real estate
The University owns a portfolio of real estate valued at over $2.0 billion, well in excess of its outstanding long-term debt. This includes approximately 49 hectares of land on the St. George campus and a further 211 hectares on the Scarborough (UTSC) and Mississauga (UTM) campuses. Some of the University's land holdings in downtown Toronto could be developed for commercial development.

Challenges

1. Constrained provincial funding
The University derives three-quarters of its revenue from tuition fees and provincial operating grants. While these revenue sources are stable and largely predictable, revenues relating to domestic students are controlled by the Province and have been constrained in recent years. The Province has funded enrolment growth in the system but has not provided increases to help institutions address inflationary cost pressures. This tension in the system has compelled universities to identify operating efficiencies.

2. Large pension and post-employment benefit liabilities
The University carries considerable unfunded pension and other post-employment liabilities on its balance sheet. The most recent actuarial valuation (2016) determined the going concern deficit to be $573 million. The University will conduct an actuarial valuation in 2017 to be filed with regulators. The accounting statement presentation suggests there could be an improvement in the deficiency given strong investment returns over the last year. The University also has $594 million in other non-pension, post-retirement benefit obligations.

3. Labour costs
Salary and benefit costs are rising faster than government grants and will continue to put pressure on the University's finances. Salaries and benefits account for about 60% of total expense. Labour relations remain positive at this time, though DBRS notes that many of the collective agreements will be renegotiated over the next two years.

4. Deferred maintenance
The University has a considerable amount of deferred and pending maintenance (DM) on its St. George campus, which reflects the University's long history. The University currently estimates DM to total $657 million. Over the last decade, the University has increased funding to address DM, which has significantly reduced the highest priority category, but DM nevertheless remains elevated. The University's facilities condition index (FCI) has remained relatively stable for the three campuses. The current estimates are 7.9% for UTSC, 11.9% for UTM and 15.0% for St. George.

2016-17 Operating Performance

The University reported a surplus of $417 million for the year ended April 30, 2017, which was well above prior-year results. On a relative basis, the surplus equates to 13.0% of revenue. The strong result was principally the result of exceptional investment returns in the latter half of the fiscal year and the accumulation of operating and capital reserves by faculties and divisions.

Total revenue rose strongly (+10.6%), with relatively strong growth across most revenue categories. Tuition and other student fees were higher (+10.8%), supported by moderate enrolment growth – both domestic and international – and fee increases. The University increased fees to the extent permitted by the provincial framework for domestic students and by 5.9%, on average, for international students. Government grants were modestly higher during the year, with flat operating grants (+0.4%) supported by restricted grants (+9.1%). Investment income surged higher, rising to $220 million (+101.8%), which reflects the rally in equity markets following the U.S. election in November 2016.

Total expense rose moderately (+3.7%), which largely reflects growth in compensation costs – the largest expense category for the University. Salary and wage escalation was modest in the final year of most of the University's major collective agreements and typically ranged between 1.25% and 1.75%; however, headcount continued to rise (+3.2%) to meet growth in enrolment and research activity. Other areas of expense rose modestly (+2.8%), which broadly reflects the moderate growth in University operations and inflationary pressures.

The University has a decentralized, activity-based budget model, which has supported strong operating results in recent years. The budget model places greater autonomy and responsibility with faculties/divisions and encourages faculties/divisions to set aside reserves to support their long-term objectives and to manage enrolment and other risks. As such, many faculties plan for modest surpluses/reserve accumulation as part of their budget planning, which leads the University to consistently report strong operating results and rising reserve balances.

Net assets jumped by $1.1 billion (+25.5%) during the year because of strong operating results ($417 million), endowed contributions ($36 million), investment earnings on the externally restricted endowment ($203 million), and remeasurements and other items relating to employee future benefits ($452 million).

Operating Outlook

The University conducts business through four funds: operating, capital, ancillary and restricted; however, the detailed budget prepared by U of T covers only the operating fund, which comprises approximately 70% of consolidated spending. The other funds are essentially run on a break-even basis. The budget is prepared on a cash basis and is based on a five-year rolling window, updated annually. Planned deficits are allowed only in exceptional circumstances and must be repaid over five years.

2017–18 Budget and Outlook

The University's 2017–18 operating budget is balanced at the institutional level, as are each of the subsequent four years in the outlook. This is consistent with the University's standard budgeting practice. While balanced at the institutional level, some academic units will incur operating deficits. The University continues to work with these units to achieve longer-term budget sustainability.

This budget is largely consistent with previous budgets. The University has not made any significant changes to internal budget processes or policies, nor has its strategic goals and objectives shifted. Operational and financial planning continues to align closely with the University's longer-term objectives, as reflected in the President's Three Priorities and the goals contained in *Towards 2030*. The budget provides incremental funding for initiatives oriented toward the University's strategic objectives and continues to include various provisions to accommodate provincial policy uncertainty (i.e., pension funding requirements, SMA2, funding model, etc.).

The University projected moderate growth in revenue (+6.7%) At the time the budget was approved, the Province had yet to provide meaningful guidance regarding the next Strategic Mandate Agreement (SMA) and operating funding. As such, the University assumed no growth in the provincial operating grant.

In contrast, tuition and other student fees are expected to rise (+10.2%), and enrolment is set to climb by 807 FTEs (+1.0%). For domestic students, the University will increase tuition fees to the extent permitted by the provincial framework, which allows the University to raise fees for undergraduate arts and science students by 3.0% and for higher-cost, professionally oriented programs by 5.0%, providing the overall institutional average does not increase by more than 3.0%. International student tuition fees will rise, on average, by 5.9%.

The University's budget and planning process requires a balanced budget. At year end, however, the reported results tend to diverge because of reserve accumulation. The budget does provide for budget increases to meet required compensation increases and rising facility costs and allocates new funding for university priorities (e.g., 61 new faculty positions, diversity and Truth and Reconciliation-related initiatives, student aid, etc.).

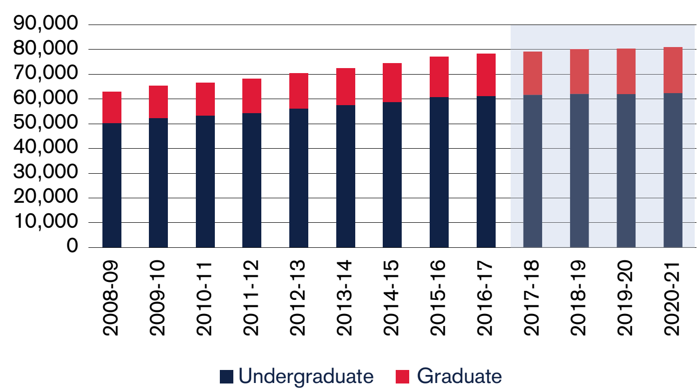
Operating Outlook (CONTINUED)

Medium-Term Outlook

The operating environment for Ontario universities is expected to remain challenging over the medium term, stemming from limited growth in provincial operating funding and a decreasing university-aged population in the Province. With a funding model that allocates funds primarily based on enrolment, the shrinking population of university-aged Ontarians has increased competition among universities for domestic students and necessitated a growing reliance on international students for some institutions.

Despite the challenges, DBRS does not expect U of T to face significant difficulties over the medium term. The University remains one of Canada's leading post-secondary institutions, and student demand has remained strong. The University also has greater financial and operational flexibility given its strong balance sheet and the commercial opportunities afforded by its real estate holdings in Toronto.

Total Enrolment (FTEs)



The University is also in a period of relative stability. The University is moving forward with various projects to support the its strategic priorities, which are unlikely to change given the recent appointment of the University's president, Meric Gertler, to a second term (2018–23).

The medium-term uncertainties facing the University largely relate to provincial policy: negotiation of the second SMA, finalization and implementation of the new funding model, tuition fee framework beyond 2018–19 and the changes to pension funding requirements. Provincial policy in recent years has suggested that university revenue growth is likely to slow, and this may require the University to adopt offsetting measures to increase revenue, slow expense growth, or draw on reserves.

The first iteration of SMAs (2014) set out institution-specific priorities for each university within the context of the Province's objective for greater differentiation and specialization by universities. The SMAs were broad in nature, and subsequent rounds are expected to be more targeted. The next iteration of SMAs will also include some outcome-oriented funding for which universities will be expected to meet negotiated performance objectives. DBRS expects the outcome-oriented funding will be easily achievable in the near term.

In conjunction with the new SMA, the Province is also introducing an updated funding formula, which will include enrolment targets. DBRS understands that the Province will negotiate an enrolment level for which the institutions will receive stable core operating funding for the duration of the three-year SMA, providing that enrolment (measured as a five-year moving average) remains within a predefined corridor. The corridor range will generally be +/- 3.0% of a negotiated corridor midpoint. The Province may reduce operating grants during the period if enrolment falls below the lower limit or offset potential enrolment-related funding declineswith increased funding through other streams, though it will not necessarily increase operating grants if enrolment exceeds the upper limit. The Province is also rebasing the core enrolment-driven portion of the funding formula to provide an equal level of per-unit funding for similar programs. This is intended to simplify administration and improve the equity of the system.Discussions between the Province and the University are ongoing. At this time, there is no direction regarding specific differentiation objectives, enrolment targets or potential outcome-oriented funding.

In the absence of the further information, the University continues with its longer-term plan to increase enrolment by nearly 3,000 FTEs by 2021–22. In the coming years, the University plans to increase undergraduate enrolment at UTM and UTSC and to increase graduate enrolment on the St. George campus in downtown Toronto. The University will also seek to modestly increase international enrolment by about 500 FTEs (+6.0%) over the next five years, as well as diversify the mix of international students in an effort to diversify some of the enrolment risk. International students account for about 22% of undergraduate enrolment and 17% of graduate enrolment. These shares are not expected to change significantly in the near term.

Pension funding requirements remain uncertain over the medium term. The Province extended and reformulated the temporary solvency relief provisions in late 2016. Under this iteration, the University would see a relatively modest increase in pension solvency payments beginning in 2018. However, there is now further uncertainty regarding special payments in light of guidance provided by the Province pertaining to the Marshall review, which is studying permanent changes to the pension funding requirements for defined benefit pension plans in Ontario. The University has (for years) planned for increasing pension special payments and has capacity to make higher payments if necessary.

Operating Outlook (CONTINUED)

The University is bargaining with labour groups following the expiry of most major collective agreements earlier this year. The University has reached a one-year agreement with the faculty association, which included modest compensation increases, and is now bargaining with other groups. The University has not provided DBRS with any indication of the direction of bargaining, but DBRS does note that these negotiations are important in Ontario's post-secondary sector and will influence negotiations elsewhere in the sector.

Capital Plan

The University's capital program has expanded in recent years as it replaces aging infrastructure and builds new capacity across its three campuses and as federal support for university capital increases. In 2016–17, capital investment rose to $284 million, which is about 20% higher than in prior years.

The University has a well-established capital budgeting process that seeks to direct resources to the highest priority projects (aligned with academic plan and University needs). U of T requires proposals to include funding plans, relatively large upfront cash contributions, and that the incremental operating costs be accommodated in divisional budgets. With this approach, the University has been successful in prioritizing capital development, while maintaining appropriate balance sheet flexibility.

The University continues to put significant resources toward capital renewal at the St. George campus in downtown Toronto. The major projects currently underway include the following:

- The renovation and expansion of 1 Spadina Crescent (Daniels Faculty of Architecture, Landscape & Design).
- The Centre for Engineering Innovation and Entrepreneurship (Faculty of Applied Science & Engineering).
- The renewal of the University College building.

The University has a number of other projects that are currently underway or in the initial planning stages for the St. George campus. U of T is also seeking to increase capacity at its UTM and UTSC campuses, as the University is planning for significant enrolment growth. U of T recently completed the Environmental Sciences and Chemistry building at UTSC and is currently constructing the Mississauga North Building at UTM.

The other major project currently underway is the Lab Innovation for Toronto, which will see 560 labs across the three campuses upgraded. The total cost of the project is estimated to be $189.8 million, of which $83.7 million will be supported by the federal government's Post-Secondary Strategic Infrastructure Fund (SIF) and $14.3 million by the Province.

The University has one the largest and oldest university campuses in North America. Many buildings have heritage designations, and 36 building are over 100 years of age. As such, U of T has a considerable amount of deferred and pending maintenance estimated at $657 million for academic and non-academic buildings, the bulk of which are on the older St. George campus. While the DM is elevated, the University has made significant progress over the last decade to significantly reduce the highest priority needs and intends to continue providing funding to slow further deterioration of the infrastructure stock.

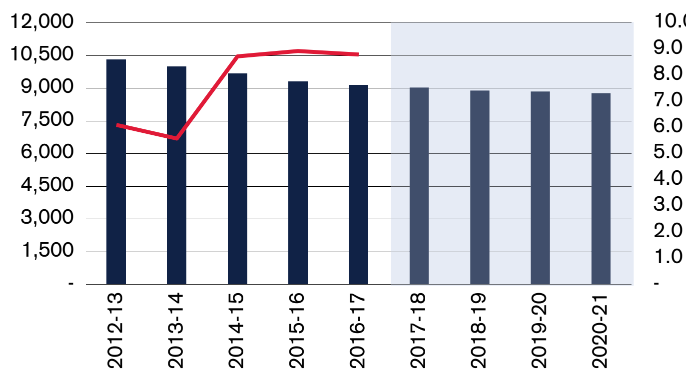
The operating budget for 2017–18 includes $17 million for DM for the St. George campus, and the University plans to increase the annual allocation to $20 million over the next four years. Additional funds are set aside for UTM and UTSC.

Debt and Liquidity

The University's long-term debt fell slightly to $716.0 million at April 30, 2017, which reflected the amortization of some small mortgages and term debt. On a per-student basis, this translated into a more pronounced decline because of ongoing enrolment growth. The debt burden fell to $9,145 per FTE from $9,317 per FTE.

U of T's outstanding debentures are long dated with maturities spread between 2031 and 2051. Interest charges remain modest at $38.0 million, or 1.4% of total expense, and interest coverage has remained stable in recent years around at 8.8 times (x).

Debt per FTE and Interest Coverage



The University's debt strategy, which covers both internal and external debt, includes a policy limit of

- 5% for the debt burden ratio, defined as interest payments plus principal repayments divided by total expenditures; and
- The expectation that U of T maintain a viability ratio of 0.8 or higher, defined as expendable resources divided by debt.

At April 30, 2017, both metrics were in favourable positions relative to the policy guidelines. The University's debt burden ratio was 3.5%, and its viability ratio was 1.9. Although not required by the master trust indenture, the University has established a sinking fund, the Long-Term Borrowing Pool, to accumulate funds for the repayment of the $710.0 million in debentures. At April 30, 2017, the sinking fund had a balance of $281.0 million.

The University's balance sheet continues to retain considerable flexibility and is among the strongest of DBRS-rated universities. While the overall net asset balance does exhibit some year-to-year volatility, much of this volatility is attributable to remeasurement gains and losses on the University's pension plan and post-retirement benefits. To better understand the level and change in the University's financial flexibility, DBRS estimates U of T's expendable resources as a sub-set of net assets, which includes unrestricted net assets, internally restricted net assets and internally restricted endowments. DBRS estimates the University's expendable resources to be $1.5 billion at April 30, 2017. Expendable resources have risen steadily in recent years with positive operating results and the accumulation of operating fund reserves. The ratio of expendable resources to debt has risen to 207% at April 30, 2017, from 97% five years earlier.

The University's endowments grew strongly (+13.5%) in 2016–17 after incurring modest losses the year prior. The growth reflects excellent investment returns during the year as well as ongoing contributions from donors. In aggregate, the endowments increased by $282 million to $2.4 billion, or $30,399 per FTE. The University has the largest endowment among Canadian universities and one of the largest on a per-student basis.

Accounting statements show a significant improvement in the funding status of the pension plan, with the accrued pension liability falling to $297 million in 2016–17 from $797 million in the prior year. The improvement reflects strong investment returns on the plan's assets that occurred during the University's 2016–17 fiscal year.

In contrast, the most recent actuarial valuation as of July 1, 2016, showed a significant deterioration in the funding status for the pension plan. On a going concern basis, upon which DBRS tends to place more weight given the ongoing nature of public universities, the shortfall increased to $573 million from $446 million. However, the solvency valuation showed a more pronounced deterioration, rising to $1.7 billion from $1.1 billion. The solvency valuation assumes the wind-up of the pension plan on the valuation date and uses prevailing long-term interest rates to value the obligations. The deterioration resulted from (1) weak investment returns in 2015–16, (2) the adoption of revised mortality tables that incorporated longer life expectancies and (3) a reduction in the discount rate. The plan's solvency deficit is highly sensitive to changes in the discount rate. The University estimates that a one-percentage-point decrease in the interest rate would increase the solvency deficit by $973.1 million.

Like other Canadian public universities, U of T is an enduring institution, which makes the sudden wind-up of a pension plan unlikely. DBRS places less emphasis on the solvency valuation, though a large solvency deficit does put pressure on the credit profile owing to provincial regulations that require universities to make special payments to liquidate the going concern and solvency deficits. The University is currently making annual special payments of $78.7 million to liquidate the going concern deficit and will begin making special payments to liquidate the solvency deficit in 2018.

The Province introduced temporary solvency relief measures in the wake of the financial crisis and has since extended and amended relief provisions. The current iteration of the funding

Debt and Liquidity (CONTINUED)

regulations requires the University to make payments to liquidate 25% of the solvency deficits over a seven-year period and fund the interest costs on the remaining 75% of the liability. The most recent valuation suggests that special payments for the solvency liability will be $15 million in 2018–19. However, the Province has announced that broader, permanent changes to pension funding requirements for defined benefit pension plans are forthcoming. These changes appear unlikely to significantly reduce funding requirements but will provide greater long-term certainty with respect to those requirements. The elements of the new framework are as follows:

- Universities will only be required to make special solvency payments if the solvency funding status is less than 85%;
- The amortization period for amortizing the going concern deficit will be reduced to ten years from 15 years, and universities will be required to establish a reserve (Provision for Adverse Deviation); and
- The Province will increase the Pension Benefits Guarantee Fund monthly guarantee, which will likely require higher premiums.

The University will conduct an actuarial valuation as of July 1, 2017, that will be filed with the regulators and will establish the required going concern and solvency payments for 2017–18 and subsequent years. The University has budgeted for rising special payments.

Other employee future benefits rose modestly to $594 million at April 30, 2017, from $567 million in the year prior. Unlike the pension plan, the University is not required to set aside funds for employee benefits.

Outlook

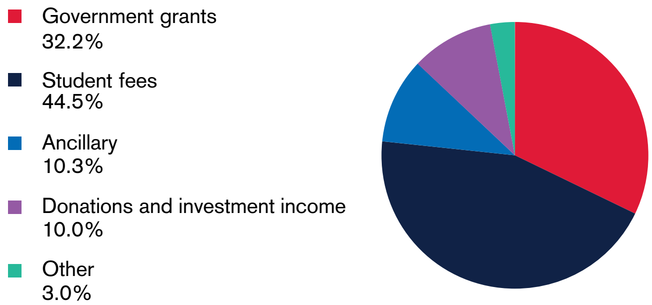
The University does not anticipate any material external borrowing over the next two to three years, which should result in debt on a per-student (FTE) basis decreasing as enrolment continues to gradually increase. DBRS projects that debt per FTE will drop to $9,000 in 2017–18 and steadily fall toward $8,850 over the next three years.

University Funding in Ontario

Canadian universities generally have three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees and (3) donation and investment income. These accounted for 80% of U of T's revenue in 2016–17.

Provincial government funding remains one of the primary sources of revenue for universities across the country, although its relative importance remains under pressure in most provinces because of strained provincial finances and competing priorities. In Ontario, the absence of indexation in base operating grants has also contributed to this trend. Over time, this has led to a gradual shift in the relative shares of revenue provided by operating grants and tuition. The share of university operations funded by operating grants has declined, while that funded by tuition fees has increased.

2016–17 Revenue by Source (Total: $3.2 billlion)



Government Funding (Provincial and Federal, 32%)

This includes operating grants, research grants and contracts as well as capital grants, of which operating grants are the most important and stable revenue source.

The Province introduced a new funding model for Ontario universities in 2017–18. Broadly, the model is largely similar to the previous funding model with a large share of funding being enrolment based. The new model, however, will seek to reduce some of the financial incentives to increase enrolment and will provide those universities facing enrolment declines with downside protection. Ultimately, funding is expected to be relatively stable for all Ontario universities over the next three years. For more information about Ontario's new funding model, see the DBRS commentary *DBRS Comments on Ontario's New University Funding Model* (March 9, 2017).

Government grants for research and capital projects are also an important source of funding. The federal government typically provides 65% to 75% of all public research funding, whereas the Province provides the bulk of capital funding; however, the Province's emphasis on spending restraint to address its own budgetary challenges in recent years suggests limited flexibility for funding increases, which makes cost containment at universities that much more crucial.

University Funding in Ontario (CONTINUED)

In the 2016 federal budget, the federal government announced the creation of a new $2.0 billion fund SIF to support post-secondary infrastructure development. The fund provides up to 50% of eligible costs for shovel-ready projects that enhance research and innovation capacity or improve environmental performance and can be completed ahead of the 2018–19 academic year. The University has received funding to upgrade 560 labs for the SIF.

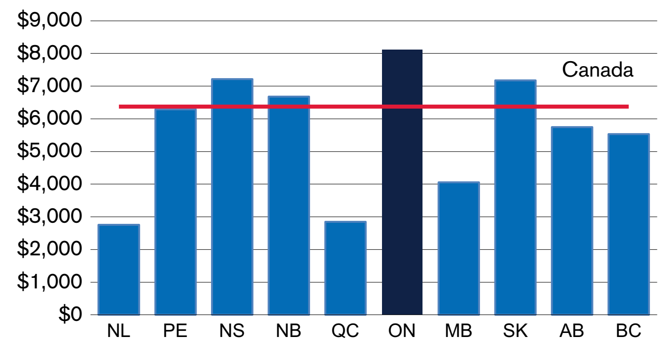
Student fees (44%)

The current tuition fee framework was introduced by the Province in 2013–14. It covered a four-year period and was subsequently extended for a further two-year period to 2018–19. The framework caps annual undergraduate tuition fee increases to 3.0% for most programs and 5.0% for most graduate and professional programs.

Donation and Investment Income (10%)

Unrestricted donations and investment income recognized on the statement of operations typically represent about 10% of the University's revenue. Endowed contributions and investment income earned by the restricted endowments are recognized as changes in net assets and are not captured on the statement of operations until they are spent, at which point they are recorded as revenue.

2016–17 Average Undergraduate Tuition Fees



Source: Statistics Canada.

The University has a well-established fundraising program and a large alumni base, which provide U of T with a significant amount of unrestricted revenue and endowed contributions. In recent years, the University has focused increasingly on generating expendable donations to support its operations.

The current fundraising campaign – Boundless – was launched in 2011 and is the largest university campaign in Canadian history, with a target of $2.0 billion for U of T and its federal universities (Trinity, Victoria and St. Michael's). The University reached its goal in November 2016, six months ahead a schedule. The University has since increased the campaign target to $2.4 billion.

University of Toronto

Statement of Financial Position (DBRS-Adjusted)

($ millions)	As at April 30				
Assets	**2017**	**2016**	**2015**	**2014**	**2013**
Cash and cash equivalents	102	114	144	113	104
short-term investments	1,321	1,039	884	783	651
Accounts receivable	90	116	91	91	82
Inventories and prepaid expenses	22	20	21	20	19
Long-term investments	3,135	2,734	2,767	2,463	2,404
Capital assets	4,473	4,349	4,265	4,167	4,019
Other assets	62	61	46	44	46
Total Assets	**9,205**	**8,433**	**8,218**	**7,681**	**7,325**
Liabilities and Net Assets					
Liabilities					
Accounts payable & accrued liab.	395	351	328	325	298
Deferred contributions	557	504	454	404	373
Employee future benefit obligations	594	567	581	514	522
Accrued pension liability	296	797	618	684	1,123
Deferred capital contributions	1,190	1,146	1,140	1,131	1,076
Long-term debt	716	719	721	723	726
Total liabilities	**3,748**	**4,084**	**3,842**	**3,781**	**4,118**
Net Assets					
Unrestricted net assets	(59)	(52)	(89)	(125)	(130)
Internally restricted net assets	3,136	2,303	2,323	2,144	1,673
Endowment - internally restricted	359	319	321	276	248
Endowment - externally restricted	2,021	1,779	1,821	1,605	1,416
Total Net Assets	**5,457**	**4,349**	**4,376**	**3,900**	**3,207**
Liabilities and Net Assets	**9,205**	**8,433**	**8,218**	**7,681**	**7,325**
Contingencies & Commitments					
Construction & renovation in progress	424	422	375	333	252
Rental leases	150	157	-	-	-
Operating leases	8	20	16	18	15
Loan guarantees	8	8	7	7	7
	590	**607**	**398**	**358**	**273**

Note: University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals.

University of Toronto

Statement of Operations (DBRS-adjusted)

($ millions)	For the year ended April 30				
	2017	**2016**	**2015**	**2014**	**2013**
Total revenue	3,216	2,909	2,840	2,710	2,563
Total expense	2,799	2,698	2,552	2,506	2,425
Operating Surplus (deficit), as reported	**417**	**211**	**288**	**204**	**138**
Revenue					
Student fees 1	1,431	1,292	1,159	1,039	945
Government grants for operations	713	710	714	706	704
Other grants for restricted purposes	418	383	397	386	391
Investment income (loss)	220	109	192	179	151
Sales, services and sundry income	333	301	292	310	288
Donations 2	101	114	86	90	84
Total Operating Revenue	**3,216**	**2,909**	**2,840**	**2,710**	**2,563**
Expense					
Salaries and benefits	1,669	1,600	1,546	1,523	1,479
Materials and supplies	218	217	203	170	166
Student aid	217	218	206	199	186
Repairs and maintenance	115	103	95	106	80
Cost of sales & services	106	89	85	88	88
Utilities	63	61	56	59	52
Amortization	165	159	152	146	141
Interest	38	39	39	39	40
Other expenses	208	212	170	176	193
Total expense	**2,799**	**2,698**	**2,552**	**2,506**	**2,425**
Capital Expenditures	**284**	**228**	**259**	**252**	**205**

Note: University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals.
1 Includes tuition fees, ancillary service fees, application and registration fees, late registration fees, and service charges on unpaid fees.
2 Excludes externally restricted donations to endowment funds since the endowment principal is unearned and is required to be maintained ntact in accordance with the University's preservation of capital policy.

University of Toronto

Statement of Cash Flows (DBRS-Adjusted)

($ millions)

	For the year ended April 30				
	2017	**2016**	**2015**	**2014**	**2013**
Operating balances as reported	417	211	288	204	138
Amortization	165	159	152	146	141
Other non-cash adjustments	(286)	(65)	(142)	(173)	(75)
Cash flow from operations	**296**	**305**	**298**	**177**	**204**
Change in working capital	116	34	69	36	29
Operating cash flow after working capital	**412**	**339**	**367**	**213**	**233**
Net capital expenditures 1	(171)	(169)	(192)	(158)	(99)
Free cash flow	**241**	**170**	**175**	**55**	**134**

Note: University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals.
1 Gross capital expenditures less donations and grants received during the year for the purchase of capital assets.

Outstanding Debentures

($ millions)

	Maturity	Interest Rate	Amount 1
Series A Senior Unsecured Debentures	Jul 2031	6.780%	160.0
Series B Senior Unsecured Debentures	Dec 2043	5.841%	200.0
Series C Senior Unsecured Debentures	Nov 2045	4.937%	75.0
Series D Senior Unsecured Debentures	Dec 2046	4.493%	75.0
Series E Senior Unsecured Debentures	Nov 2051	4.251%	200.0
Total			**710.0**

1 Principal payable upon maturity.

University of Toronto

Summary Statistics (DBRS-adjusted)

	For the year ended April 30				
	2016-17	**2015-2016**	**2014-2015**	**2013-2014**	**2012-2013**
Total students (FTEs)	**78,291**	**77,130**	**74,516**	**72,370**	**70,311**
Undergraduate	79%	79%	79%	79%	80%
Graduate	21%	21%	21%	21%	20%
Annual change (%)	1.5%	3.5%	3.0%	2.9%	3.3%
Enrolment (headcount)	**88,766**	**87,639**	**85,383**	**83,012**	**80,899**
Domestic	71,314	71,587	70,859	70,405	69,590
International	17,452	16,052	14,524	12,607	11,309
Total Employees (headcount)	**15,204**	**14,738**	**14,345**	**14,503**	**13,832**
Academic staff 1	8,564	8,423	8,251	7,953	7,439
Operating Results					
Surplus (deficit) ($ millions)	417	211	288	204	138
As share of revenues	13.0%	7.2%	10.1%	7.5%	5.4%
As share of revenues (five-year rolling average)	8.7%	6.6%	5.3%	3.6%	0.4%
Revenue Mix (as % of total DBRS-adjusted revenue)					
Government funding (federal and provincial)	32.6%	34.9%	36.3%	37.5%	39.7%
Student fees	44.5%	44.4%	40.8%	38.3%	36.9%
Ancillary	6.8%	3.8%	6.8%	6.6%	5.9%
Donation and investment income	3.1%	3.9%	3.0%	3.3%	3.3%
Other	13.0%	13.0%	13.1%	14.3%	14.3%
Debt and Liquidity Analysis					
Total long-term debt ($ millions)	716.0	718.6	721.1	722.8	726.0
Per FTE student ($)	9,145	9,317	9,677	9,988	10,326
Debt, contingencies and commitments ($ millions)	2,196.0	2,691.0	2,317.5	2,279.4	2,644.0
Per FTE student ($)	28,049	34,889	31,101	31,496	37,604
Cash and short-term investments ($ millions)	1,423.0	1,153.3	1,027.8	896.4	755.1
As share of total expenditures	50.8%	42.7%	40.3%	35.8%	31.1%
As share of current liabilities	360.3%	328.6%	313.2%	275.9%	253.0%
Interest costs as a share of total expenditures	1.4%	1.4%	1.5%	1.5%	1.6%
Interest coverage ratio (times)	8.8	8.9	8.7	5.6	6.1
Expendable Resources ($ millions)	1,479.0	1,226.4	1,116.8	937.9	805.4
As share of total debt	207%	171%	155%	130%	111%
Endowment Funds					
Total endowments ($ millions)	2,380.0	2,097.7	2,142.1	1,880.8	1,663.7
Per FTE student ($)	30,399	27,197	28,747	25,989	23,662
Payout rate	3.9%	3.7%	4.1%	4.4%	4.7%
Annual return on assets	15.4%	-0.3%	15.0%	14.6%	11.4%

1 Includes part-time staff and teaching assistants.

Rating History

	Current	2016	2015	2014	2013	2012
Issuer Rating	AA	AA	AA	AA	AA	AA
Senior Unsecured Debentures	AA	AA	AA	AA	AA	AA

Previous Action

- Confirmed, November 16, 2016.

Related Research

- *Rating Public Universities*, May 26, 2017.
- DBRS Canadian University Peer Comparison Table, August 23, 2017.
- Business and Financial Risk Assessments for Public Universities, August 23, 2017
- "DBRS Comments on Ontario's New University Funding Model," March 9, 2017.

Previous Report

- University of Toronto: Rating Report, November 16, 2016.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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